

ECONOMIC SECURITY ACT

WEDNESDAY, FEBRUARY 20, 1935

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m. in the Finance Committee room, Senate Office Building, Senator Pat Harrison (chairman) presiding.

**STATEMENT OF DR. ROBERT R. DOANE, NEW YORK CITY,
REPRESENTING OLD AGE REVOLVING PENSIONS, LTD.**

The **CHAIRMAN**. Dr. Doane, the other day when Dr. Townsend testified he said that he would like for you to furnish certain data to the committee. You may proceed in your own way. If you have that data and just want to put it in the record, it will be all right.

Mr. **DOANE**. Mr. Chairman and members of the committee, Dr. Townsend asked me to make a statistical study, based upon existing levels of trade and levels of production in this country, to see what possible amount of money might be collected as the result of a 2-percent general sales tax. I am appearing before this committee at the request of Dr. Townsend in that capacity, not especially as an advocate of the Townsend plan, or any plan, or as recommending any particular form of taxation.

The **CHAIRMAN**. You stated before the House committee that you did not advocate the Townsend plan.

Mr. **DOANE**. I am not advocating any plan. I just made a statistical study. I was employed in my professional capacity.

The **CHAIRMAN**. I gathered that information from your testimony.

Mr. **DOANE**. That is right. Now I have here a table which I prepared, of which I can give you copies.

(The statistical data referred to by Dr. Doane is as follows:)

TABLE I.-Estimated accumulative effect of turn-over tax at 2-percent rate on physical-goods transactions (monthly basis)¹

[Millions of current dollars]

Classes	Value	Tax	Estimated increase in costs due to 2-percent tax
1. Raw materials:			
Farm products.....	\$484.0	-----	-----
Forest products.....	20.0	-----	-----
Fisheries.....	11.0	-----	-----
Mines, quarries.....	235.0	-----	-----
Total.....	750.0	\$15.0	-----
2. Manufacturing:			
Cost of materials.....	1,820.0	-----	-----
Plus added tax.....	15.0	-----	-----
Total cost.....	1,835.0	-----	-----
First turn-over (tax).....	36.7	-----	-----
Second turn-over (tax).....	37.4	-----	-----
Third turn-over (tax).....	38.1	-----	-----
Total tax.....	112.2	112.2	-----
Original cost.....	1,835.0	-----	-----
Total cost.....	1,947.2	-----	\$6.9
Value added.....	1,680.0	-----	-----
Selling value.....	3,627.2	-----	-----
Plus 2-percent tax.....	72.5	72.5	-----
Total paid.....	3,699.7	-----	-----
3. Wholesale:			
Sales.....	2,663.8	-----	-----
Plus 2-percent tax.....	53.3	53.3	-----
Value goods sold.....	2,717.1	-----	8.7
4. Retail:			
Sales.....	2,173.7	-----	-----
Plus 2-percent tax.....	43.5	43.5	-----
Value goods sold.....	2,217.2	-----	10.6
Original aggregate.....	8,750.0	-----	-----
Total expected taxes.....	-----	296.5	-----
Consumer collections in addition.....	-----	40.3	-----
Grand total collections.....	-----	336.8	-----
At annual rate of.....	-----	4,041.8	-----

¹ Computed on 1931 basis. All figures from official census and Government bureau reports.

TABLE I-A.----Maximum theoretical possibilities under Z-percent turn-over tax

	Selected items as given in table I	All producer and consumer expenditures	All expenditures, including Government and institutions	All gross transactions and transfers
Estimated annual 1935 collections	\$4,000,000,000	\$6,000,000,000	\$6,300,000,000	\$9,600,000,000
Estimated annual collections, 1929 basis.	\$7,500,000,000	\$12,000,000,000	\$12,600,000,000	\$18,700,000,000
Estimated increase in prices percent--	12	18	20	24
Annual volume of transactions:				
1935.....	-----	\$224,000,000,000	\$242,000,000,000	\$481,000,000,000
1936.....	-----	\$358,000,000,000	\$376,000,000,000	\$935,000,000,000

Mr. DOANE. Table I deals with the estimated accumulative effect of the turn-over tax on the 2-percent rate on physical-goods transactions, on a monthly basis, at current levels of production. I might say that these figures have been taken from the Biennial Census of Manufacturers, from estimates of the Bureau of Agricultural Economics, from the wholesale and retail census of distribution, covering the year 1931, with a slight adjustment, bringing it down in accord with the production and the minimum index of the Federal Reserve Board at the present level.

We find, on an average, the current value of farm products now moving into the market on a monthly basis of \$484,000,000; forest products, approximately \$20,000,000 per month; fisheries, \$11,000,000; mines, quarries, and oil wells, \$235,000,000; making a total of raw materials, in terms of current monetary value, some \$750,000,000.

In the third column of this table you will find the figure 15. That is \$15,000,000. That is the estimated 2-percent tax on the \$750,000,000.

Item no. 2, covering ('manufacturing costs of materials', is approximately \$1,820,000,000; plus the added 2-percent tax given under item no. 1, bringing the total cost to \$1,835,000,000.

Now based upon previous studies of the Biennial Census of Manufacturers, we find an average turn-over of materials in process of fabrication and so forth, of about three times. I have, therefore, allowed the first turn-over, 2 percent, on the \$1,835,000,000, or \$36,700,000.

The second turn-over, \$37,400,000; the third turn-over, \$38,100,000; making a total estimated possible tax collection of \$112,200,000.

The CHAIRMAN. That is on the first turn-over, \$112,000,000?

Mr. DOANE. That is the accumulative three turn-overs, after the goods are in the manufacturing process. Now the total original cost, as we found in item 2 at the top of that column, \$1,835,000,000, added to the \$112,000,000 brings the total cost up to \$1,947,000,000.

In the fourth column in this table we have included the percentage, the estimated percentage mark-up or additional cost due to the levying of a 2-percent tax. In this instance, after these three turn-overs, we find the cost has moved up approximately 6.9 percent. Now the value added to manufactures of \$1,680,000,000, brings the total selling value on a monthly basis up to some \$3,600,000,000, plus the 2-percent tax of some \$72,500,000.

The wholesale volume of goods moving into the market at current levels has been estimated at approximately \$2,600,000,000, with an estimated 2-percent tax of some \$53,000,000.

Retail sales moving in at the rate of \$2,173,000,000, plus a 2-percent tax, bringing in another estimated \$43,500,000. That gives a grand total of \$296,500,000 tax.

Now on other consumer taxes, for recreational expenditures and other services, there is an estimated \$40,000,000 in addition. That \$40,000,000 is contained in a paper I presented before the Ways and Means Committee last Tuesday, table 2 of that record. That makes a grand total estimated monthly collections of some \$336,800,000. If we multiply that by 12 we find a possible maximum collection of some \$4,000,000,000 per annum. In my estimation, under an accelerated production, that \$4,000,000,000 is probably a trifle low.

We might collect a little more than that. Each month probably the volume will be a little higher. It might go as high as \$5,600,000,000.

Now at the top of this sheet, table I-A, we have given some estimates based on the 1935 basis, and also on the 1929 basis of production. As I have said before, table I, we find indicated there \$4,000,000,000 possible collections. On the 1929 basis it would be around \$7,500,000,000. Now, if we would include all producer and consumer expenditures, which involve naturally the duplications, the figures would stand respectively as \$6,000,000,000 and \$12,000,000,000. When we get up to all gross transactions of every character, at present levels, the maximum figure would be \$9,600,000,000, and on the 1929 levels approximately \$18,700,000,000.

Briefly summing up the returns from a 2-percent tax as set forth in detail in table I, which includes the tax on raw materials, manufacturing, wholesaling, and retailing on total monthly transactions of some 8¾ million dollars monthly, while the estimated increase in the cost of goods due to the tax has been placed at approximately 10 percent. That will be found in column 4, table I. The total estimated revenue from the tax on this limited list approximates 4 billion dollars monthly at present levels, without giving consideration to any accelerated movement of trade; while an identical tax on all transactions would return 9 to 9½ billions of dollars per year at present levels of production.

The estimated increase in retail price of goods, based on experience of other nations, would be 10 percent; while the volume of trade expectancy could increase 25 percent monthly for the first few months, after which the increase would be at a decrescent rate. A continuation of this stimulated volume of trade could be expected under normal conditions until the revenue derived from the tax could mount to \$26,000,000,000 per year, but that would be in the future.

This form of taxation, if uniformly applied, could easily through possible substitution, decrease the tax liability now imposed on real property with a consequent material increase in capital value.

The social security envisaged in the Townsend plan is undeniably a challenge to our modern economy. It seems that if we accept as a sound business principle a 2 percent annual depreciation charge against our capital equipment of brick, mortar, steel, and so forth, it is natural that mankind should accept a like charge annually against our human resources.

That is all I have to say.

The CHAIRMAN. Dr. Doane, did you finish your statment?

Mr. DOANE. I did; yes.

The CHAIRMAN. I wanted to ask you a question or two. Now your estimate, on the 2-percent turn-over, would be approximately \$5,000,000,000, or alittleless. It may be around 4 or 5 billion dollars?

Mr. DOANE. That is right.

The CHAIRMAN. Well, of course, you are familiar with the fact that France, with a 2-percent turn-over tax and with a population of 42,000,000, collected approximately \$300,000,000 a year.

Mr. DOANE. Yes.

The CHAIRMAN. You have ascertained that from your investigations, too, haven't you?

Mr. DOANE. I do not know the exact amount' of collections.

The CHAIRMAN. That is taken from the reports.

Now that is a population of 42,000,000. If you had three times that many people, as you have in the United States, it would come to about \$900,000,000. Now, in view of that experience, in view of that record, on the 2-percent turn-over, your figure is a little inconsistent, your statement that we can obtain in this country, on a 2-percent turn-over tax, 4 to 5 billion dollars, isn't it?

Mr. **DOANE**. I have assumed that the tax would be placed on all of these goods, the physical goods, and I have given the mathematical and statistical presentation only. There may be probably some eliminations or some exemptions. I haven't taken that factor into consideration.

The **CHAIRMAN**. You haven't taken the factor of the experience of France with the 2-percent turn-over tax and the population of 42,000,000, into consideration?

Mr. **DOANE**. What are the eliminations in France? I am not familiar with them. Is that tax levied on all physical goods?

The **CHAIRMAN**. It is a Z-percent turn-over tax. I do not know whether there are any eliminations or not. Mr. Parker, can you tell me that?

STATEMENT OF **L. H. PARKER**, CHIEF OF STAFF, JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

Mr. **PARKER**. There are very few eliminations. There are several things that bear a higher rate, like luxuries. It is true that when an article is sold on a commission, only the commission is taxed. The tendency of the French turn-over tax has been, of course, to cause rather more business by way of commission, because you pay then the 2-percent turn-over tax on commission, not on the cost of goods plus the mark-up. In other words, if a wholesaler does business as a commission merchant he saves a lot of money in tax. But the French tax strikes nearly everything. There are some exemptions.

The **CHAIRMAN**. Is it quite similar to the tax in Germany?

Mr. **PARKER**. The report on double taxation contains a brief description of the French system.

(Mr. Parker subsequently submitted the following:)

REPRINTED FROM DOUBLE TAXATION REPORT MADE BY A SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS, PAGE 226

The present tax, enacted into law in 1920, consists of a 2-percent levy on gross receipts from sales within and imports into France, a 2-percent levy on gross commissions and other proceeds from the sale of commercial services, a luxury tax at varying rates on sundry articles, a production tax of 2½ percent on sales and imports of coal, a production tax of 3½ percent on sales and imports of fertilizers, a slaughterhouse tax at varying rates, and special importation taxes on tea, coffee, automobiles, sulphur, and sugar. The French turn-over tax permits of pyramiding.

The **CHAIRMAN**. Is the Z-percent turn-over tax in France quite similar to the German Z-percent turn-over tax?

Mr. **PARKER**. Yes; I think the French tax is a little more all-inclusive than the German tax.

The **CHAIRMAN**. Now I will ask you, Dr. Doane, with reference to Germany, which has a population of approximately 64,000,000. They have this Z-percent turn-over tax, and their experience is that they obtain in revenue \$245,000,000 a year. The population of this

country is a little more than twice as much as that of Germany. On that same basis it would be around \$490,000,000 in this country. Is that not a little bit inconsistent with the figures that you gave, in view of the records of those countries?

Mr. DOANE. Well, I haven't looked into all of the transactions, of course, covered by the other countries, and the relationship of the monopolies taxes, which might cause certain eliminations.

The CHAIRMAN. Anyway, if there were 10,000,000 people in the United States 60 years of age and over who were going to obtain this \$200 a month, or \$2,400 a year, if all of them took it-and it is the object, I think, that all of them take it, because it invites those who have jobs to give up their jobs so that other people can take those jobs, and they can obtain the \$200 a month or \$2,400 a year-that would amount to about \$24,000,000,000 a year. That is right, isn't it?

Mr. DOANE. Yes.

The CHAIRMAN. Has Dr. Townsend made a suggestion to you as to how you are going to get the difference between the \$24,000,000,000 and the 4 or 5 billion dollars that you say under those figures we might obtain from the 2-percent turn-over tax?

Mr. DOANE. It has been suggested, I think, and I have read the previous testimony of Mr. Hudson before the Ways and Means Committee several days ago, by placing a Z-percent tax on what he referred to as total transactions, taking the peak year 1929 of some one trillion two hundred billion dollars worth of these transactions, which, I understand by referring to their testimony, the estimate of Mr. Goldenweiser, of the Federal Reserve Board, debits against individual accounts, figuring 2 percent of one trillion two hundred billion of dollars would be, \$24,000,000,000. But at these levels of course we do not have even probably more than one-third of that total transactions. Talking with Dr. Townsend., just in private conversation, I think that he is assuming that we will in the future again get back up to those levels.

Senator COUZENS. That would contemplate the tax that you referred to as the tax on service transactions?

Mr. DOANE. A tax on all transactions.

Senator COUZENS. You haven't, in this minimum, included any tax on service transactions?

Mr. DOANE. No; I have not.

The CHAIRMAN. I think that is all, unless some members of the committee wants to ask questions. Thank you, Mr. Doane.

At this point I desire to place in the record a number of statements, letters, and briefs presented by individuals and organizations interested in S. 1130.

AMERICAN HOME ECONOMICS ASSOCIATION,
February 14, 1935.

Senator PAT HARRISON,

Chairman Senate Committee on Finance,

United States Senate, Washington, D. C.

DEAR SENATOR HARRISON: The American Home Economics Association has for years recognized the importance of the health of mothers and infants to the welfare of the family. It considers that these must be recognized in any worthy program of economic security.

The association heartily endorses the provisions for maternal and infant health included in the economic security bill. It considers that this type of service devoted primarily to reducing the family catastrophe of maternal and infant mortality and to building positive health is in valuable in promoting the economic